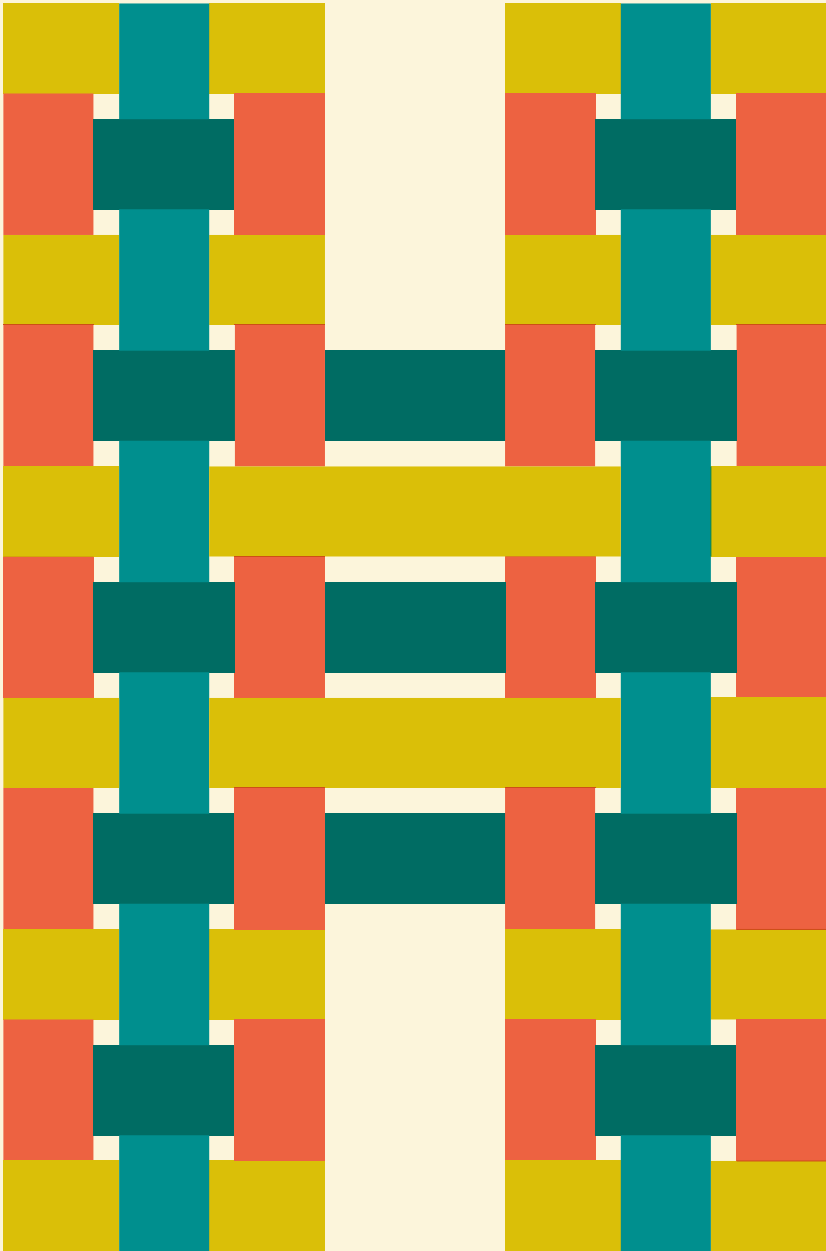


# 2020 Universal registration document

CSR EXTRACT  
Non-Financial Performance Statement (NFPS)



## 2.7.2 RESPONSIBLE COMPANY

Hermès seeks to fit harmoniously into the local economic fabric. The House is determined to be a socially responsible company actively involved in the life of local communities with which it builds and develops strong ties. The craftsmanship model that it employs in France brings with it a regional corporate responsibility, and even beyond because its employees contribute to the development of their communities through simple actions: giving time, giving of one's self, opening oneself up to others, receiving, and so on... Throughout the world, there are many possibilities at Hermès.

### POLICY

The Hermès Group's policy is to ensure that each production and distribution unit maintains a dialogue and undertakes concrete actions with local authorities and stakeholders, with the goal of healthy integration in the local community, as a good, trustworthy, civic-minded neighbour, poignant examples of which are set out below.

The distribution subsidiaries, for example, have an annual target in this area.

### MEASURES IMPLEMENTED AND RESULTS

#### 2.7.2.1 GIVING BACK TO THE WORLD A PART OF WHAT IT GIVES, THROUGH GENEROUS ACTIONS

##### 2.7.2.1.1 Corporate responsibility – economic aspects

**Hermès participates in value creation in France through the direct employment of 10,383 people**, and increased its workforce by 861 people in 2020 (676 last year). Although 80% of the objects are produced in France, 90% of the Group's sales are made outside France, thus making a positive contribution to the French trade balance.

**The Hermès Group's income tax expense amounted to €613 million, i.e. a tax rate of 31% (compared to France's current tax rate of 32% (see note 10 to chapter 5 "Consolidated financial statements").**

Concerning taxes, the Hermès Group follows the recommendations of the CSR GRI 207 reporting standard:

- ◆ Hermès' tax strategy is based on the following principles:
  - all the Hermès Group's companies comply with the applicable regulations in the countries in which these companies are established,

- compliance with the deadlines specified by applicable regulations in each country for filing the required tax statements and the payment of taxes owed,
- income is taxable in the place where the income is generated,
- absence of creation of legal structure or transactions to meet a primarily tax-related objective,
- the fight against tax evasion with the absence of use of tax evasion schemes or structures without substance.

This tax strategy is implemented by Group Financial General Management, based on internal (the tax department) and external expertise in France and abroad. This strategy is reviewed and approved by the Executive Committee at least once per year:

- ◆ the location of the Hermès Group's activities is based exclusively on operational choices, and tax considerations do not modify that approach. That is how the location of production in France, which is a key element of the Hermès Group's strategy for sustainable development, impacts the amounts of taxes paid in the country as well as the Group's effective tax rate. The effective tax rate was thus 31%, compared to France's current tax rate of 32%;
- ◆ the Hermès Group's tax positions are tracked and audited by the tax department, which reports directly to a member of the Executive Committee, one of whose objectives is to anticipate, identify, and manage, with the finance department, the tax challenges. It contributes to the identification of any non-compliant or unethical practices, in addition to the H-Alert! internal system open to all employees;
- ◆ every year the Group files, as part of its tax obligations, a statement of transfer prices and a country-by-country statement, the Cross-Border Currency Reporting (CBCR) with the French tax administration. The CBCR is created in accordance with the recommendations of the OECD (as interpreted in French tax law). It is subject to an exchange of information between the tax administrations of the countries in which the Group is established. In the countries in which the exchange of information is not operational, the Group has a CBCR programme with the local tax administration.

#### 2.7.2.1.2 Tangible and generous commitments: financial donations, contributions in-kind and volunteering actions

##### COVID-19 – GENERAL MOBILISATION TO SUPPORT STAKEHOLDERS

Faced with the global health crisis, all Group entities and employees around the world have joined in to help and support local stakeholders affected by the pandemic. The actions took various forms:

- ◆ the Hermès Group made an **exceptional donation of €20 million for equipment at the AP-HP hospitals in Seine-Saint-Denis**, the financing of the professional training of caregivers and the reinforcement of the capacities to innovate. this donation is the largest this institution has ever received.

The employees of the sites in France have used their savoir-faire and expertise to produce and manufacture:

- nearly **50,000 litres of hydroalcoholic solution were produced by the CNP (Comptoir Nouveau de la Parfumerie)**. They were donated in particular to French hospitals, but also to numerous local entities such as the Agglomération Seine-Eure and the Prefecture of the Grand-Est region, as well as partner associations providing assistance to disadvantaged people,
- 110,000 fabric masks were made by craftspeople at the Leather Goods workshops. They were made for the benefit of various French hospitals, such as the Hospice Civil de Lyon. More than 7,000 hours were spent manufacturing these articles, including cutting and stitching.

In the same spirit of mutual aid and solidarity, the House donated various protective equipment in support of the pandemic:

- ◆ 122,000 surgical masks were distributed to several associations, in France and abroad. For example, the Benji's Center in Hong Kong received 20,000 masks, and the Federico Gomez children's hospital in Mexico received 8,800. In France, regional authorities such as the Angoulême Regional Health Agency and Paris hospitals have also benefited from such donations;
- ◆ nearly 25,000 FFP1 and FFP2 masks were sent to numerous French hospitals, such as the Bichat Hospital in Paris;
- ◆ additional equipment, including 3,200 gowns, was sent to certain hospitals in France, such as the Clermont-Ferrand University Hospital Center and the Avicenne Hospital in Bobigny. A retirement home and firefighters and police officers in Portugal benefited from 5,500 gloves;
- ◆ the Leather Goods workshops of the Alpes, Ardennes and Sud-Ouest as well as the manufacture de Pierre-Bénite, donated 46,000 meters of fabric to several French hospitals, including the Charleville-Mézières Hospital Center and the Hospices Civils in Lyon, for the purpose of making their own "general public" masks;
- ◆ the subsidiaries also donated their time to help those most vulnerable to the virus. For example, six employees of Hermès Suisse helped the association "Carrefour rue" sort clothes during the first lockdown, in order to assist the homeless. The Brazil subsidiary organised a campaign to buy masks. For each purchase of a fabric mask by an employee, Hermès Brazil bought a complementary one to donate to local communities.

### Group entities get involved

Hermès reaffirmed its active commitment, in 2020, to increase its generous initiatives in all the regions where it operates. Manufacturing sites and distribution subsidiaries get involved regularly, and are keen to continue the partnerships established. While Group Management is at the root of many initiatives and commitments, the international distribution subsidiaries remain a source of ideas and contribute significantly to the development of local initiatives and partnerships. They encourage involvement and nurture a sense of belonging among employees, who come together around a project and with common objectives. These commitments, made locally, are carried out in addition to the philanthropic initiatives carried out by the Fondation d'entreprise Hermès.

Due to the health crisis, many actions could not be renewed or were limited in their scope of action. Nevertheless, in general, the House has maintained its generous actions as much as possible, in terms of financial donations, in-kind donations and volunteer actions. The entities have made considerable efforts to adapt and anticipate these actions.

**In 2020, more than 340 such operations brought together employees around the world**, including some 100 more specifically related to the pandemic. They contributed, during their working hours as well as in their own time, to environmental, cultural or solidarity actions with local communities. Among these concrete actions, more than 1,500 hours, were contributed, despite the unprecedented context this year.

#### In France

Nearly 54 actions (excluding actions related to Covid-19) were carried out in France during 2020, whether financial, in-kind donations or donations of time, in addition to the Foundation's actions.

**Since 2017, toys have, for example, been collected at the 13 French sites.** In 2020, 526 kg of toys were collected for the partner association. These activities promote professional reintegration and help protect the environment.

Since 2016, the uniforms of the sales associates are given to an association for professional reinsertion in France.

In addition, numerous financial donations are made for cultural projects, particularly in museums that showcase fabrics and/or silk.

#### International

The editions of *Carrés Solidaires* continue, and in particular, allow solidarity initiatives throughout the world to be supported and encouraged. Thus, in 2020, subsidiaries in Singapore, Hong Kong, the United Kingdom, the United States, China and Switzerland took part. **A total of 2,825 carrés, created specifically for the initiatives, were sold to benefit nine associations.**

The **Europe** region invited its subsidiaries to take part and recorded a total of 62 local actions in favour of the most vulnerable people.

- **Spain** is assisting children at risk of social exclusion by providing financial support to two local NGOs.

- The **United Kingdom** has continued its commitment to a charity for the protection of abused and/or neglected children since 2019. The subsidiary also organised a fundraising campaign to contribute to this initiative, involving 32 employees.
- **Germany** has renewed its partnership with a local association for the second year and contributes financially to the aid and support of disadvantaged children, young people and families by giving them access to education, culture or sport.
- **Italy** is continuing its contribution to numerous social associations, such as supporting young people in an artistic field.

Employees in **Asia** and **Asia-Pacific** carried out 75 actions, mainly through concrete initiatives to preserve local *savoir-faire*, art and heritage.

- **China** is committed to helping sick children, particularly those with heart disease, by helping to fund research into a 3D printing technology. To finance this action, the subsidiary held a charity sale at the end of the year.
- **Hong Kong** has been actively involved in numerous local associations for two years. Another charity sale of *Carrés Solidaires* was held this year. At the same time, 20 children were supported in their weekly orthodontic therapy, through 840 sessions over a period of 11 months.
- In **Singapore**, 30% of the revenue of the 700 copies sold of the Hermès "Wild Singapore" scarf, designed by Alice Shirley, was donated for the benefit of two environmental projects, the optimisation of green spaces in Singapore and the support of the urban biodiversity model.
- **Taiwan** is committed to long-term actions, and for the fourth consecutive year has supported an institution specialising in the care of disabled children, as well as an association that helps students in need. As part of its commitment to biodiversity, the teams also carried out replanting actions this year in coastal areas.
- **Korea** continues its contribution, for the fifth consecutive year, to the conservation and sustainable use of cultural heritage by supporting local craftsmanship, in particular certified master craftspeople with unique *savoir-faire*. The subsidiary has made a financial commitment to restore the buildings of the Royal Palace.
- The **Travel Retail** division, involving six countries in Asia-Pacific, once again donated 200 orange boxes filled with essential and educational products for young people in need.
- In **Australia**, the subsidiary renewed its long-term partnership with the Sydney dance ballet, with the creation of its first show for young audiences. Performing in schools in Western Sydney, this show invites students to dance classes. A donation of 3,384 meters of silk was also made to benefit various associations, particularly in the field of cancer research for children and young people.

- **India** provides financial support for the “Tara Outreach Center” project, which helps children from extremely disadvantaged backgrounds in several areas, such as access to housing and proper education. In addition, the subsidiary is involved in the restoration and conservation of a local bookstore, notably through the restoration of a collection of world maps.

The **Americas** undertook a total of 46 actions.

- In **Brazil**, the subsidiary is particularly involved in the renovation of the roof of the NGO Redes de Maré, created by residents of the Maré favela in Rio de Janeiro. This project directly benefits more than 4,500 residents, their families and neighbours, who are supported by the Foundation.
- The **United States** participated in an online collection of school supplies to help children in underserved communities. More than 120 employees took part in this action. For the first year, the subsidiary made financial donations to several associations selected by the regional action committees for racial equality. Support for local craftspeople was also given, in particular to help them in terms of visibility and commercial development. A mentoring day was organised for this purpose.

#### 2.7.2.1.3 Fondation d’entreprise Hermès (see §1.11 of chapter 1 “Presentation of the Group and its results”)

Reaching out to help each other has never seemed as important as in this pandemic year. Discussions and sharing with others, which shape collective life, are at the heart of the Fondation d’entreprise Hermès’ missions. This ambition was rolled out in 2020 through four major axes that structure its action. Committed to artists, it **supports creation**, from the production of works to their showcasing to the public. Emanating from a house of craftspeople, it promotes the **transmission of savoir-faire**. Aware of environmental issues, it is committed to **protecting the planet**. Lastly, with a philanthropic tradition, the Fondation d’entreprise Hermès encourages **solidarity actions**. These four pillars determine the Foundation’s areas of expertise and reflect the Foundation’s humanist values and shape its role as a sponsor. It provides targeted responses to support programs that enable it to act on the ground.

The budget of the third mandate of the Fondation d’entreprise Hermès (April 2018 – April 2023) is €40 million over five years. This budget (as a proportion of revenue) is the highest of French business foundations (source: Carenews study dated 18 February 2018).



€40M

million budget  
for the Fondation  
d’entreprise  
(2018-2023)

2

#### 2.7.2.1.4 Livelihoods Carbon Fund

Since 2012, Hermès has been a partner of the Livelihoods Carbon Fund (LCF), which aims to improve the living conditions of disadvantaged communities in a sustainable manner by developing large-scale projects with real impact against climate change ([www.livelihoods.eu](http://www.livelihoods.eu)).

LCF aims to be a start-up investor (with an entrepreneurial approach and investment risk) in three types of projects (ecosystems, agroforestry and energy) in Africa, Asia and Latin America. The fund has 10 partners: Danone, Crédit Agricole, CDC, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin. The fund has two sub-funds (LCF1 and LCF2). The initial term of the LCF1 fund is 24 years, and projects run for between 10 and 20 years LCF1, launched in 2011, is the only one that has generated carbon credits to date. Sub-fund LCF2, launched in 2017 and larger than LCF1, is half-way through its investment process, in particular through the extension of the projects of the LCF1 sub-fund. For the time being it does not deliver any credits.

## LIVELIHOODS CARBON FUND #1

Nine extensive projects with concrete social and environmental results



<b>1 million</b>	<b>130 million</b>	<b>120,000</b>	<b>10 million</b>	<b>9</b>	<b>40 million</b>
project beneficiaries	trees being planted	households being equipped with efficient cookstoves	tons of CO <sub>2</sub> to be sequestered over 20 years	active projects (Africa, Asia & Latin America)	€ invested

The projects generate profits for local communities and ecosystems, as well as for the partners in the fund, which earn carbon credits with a significant environmental and social impact in proportion to their investment over the project development period. These projects, one of the characteristics of which is the aim to expand their scope to a very large scale, and for periods from 10 to 20 years, are the following:

- ◆ **Restoration and preservation of natural ecosystems**, for example mangrove forests. Nearly 8,000 hectares have been replanted in Casamance (“Océanium” project); 4,500 hectares in the Ganges delta (“News” project); 5,000 hectares in Indonesia (“Yagasu” project). These projects secure populations (protection against cyclones or the invasion of salt water) and provide food sources through ecosystem regeneration;
- ◆ **Agroforestry and soil remediation through sustainable agricultural practices**. With the support of the Naandi Foundation, Adivasi tribal communities in the Araku valley in India have, for example, planted six million trees (fruit trees, as well as for firewood, construction, etc.), including three million coffee bushes, in accordance with agroforestry models. In Guatemala, 4,000 hectares of trees and food crops have been planted in the Cerro San Gil mountain area (“Fundaeo” project), allowing rural families to increase their food security and incomes, while protecting biodiversity. In Kenya (project VI “Agroforestry”), on

the slopes of Mount Elgon near Lake Victoria, the livelihoods of 30,000 small farms will improve through the intensification of agriculture respectful of natural resources (Sustainable Agricultural Landscape Management – SALM) and the development of dairy production. The project also contributes to the protection of water resources and generates positive social impacts for women’s jobs;

- ◆ **Access to rural energy to reduce deforestation**. In Kenya, the “Hifadhi” project equipped 60,000 households with improved wood-burning cooking stoves that significantly reduce wood consumption compared to the previous cooking equipment, thereby reducing pressure on forests, firewood collection time for families, and exposure to the toxic fumes generated by old stoves. In Burkina Faso, with the support of the Tiipaalga NGO, 30,000 improved stoves were installed by inhabitants in their villages, in an effort to secure their use over time in part of the Sahel region. With the financial support of the French development agency (AFD), an agroforestry component has been added to this project. In Peru, the ITYF project (taken from the name of the Instituto Trabaja y Familia NGO) has installed 30,000 improved wood-burning cooking stoves and hygiene kits to families in extreme poverty in the Peruvian Andes. At the same time, the project brings training and awareness on health (reduction of toxic fumes, importance of boiling water, basic hygiene gestures, etc.), and will also have a significant impact against deforestation.

In 2020, the above projects impacted the lives of more than one million people, and helped replant more than 130 million trees, an area equivalent to five times that of Paris. They also equipped 120,000 families with improved cooking stoves, which reduces deforestation and preserves women’s health, for a total of 10 million tonnes of CO<sub>2</sub> equivalent captured or avoided (projects last between 10 to 20 years). Thus, they help to offset Hermès’ carbon emissions, on a voluntary basis.

In 2020, to help the people of the Ganges basin involved in the Livelihoods Carbon Fund’s Sunderbans project, **Hermès made a special donation for the reconstruction of a school destroyed by Cyclone Amphan.**

The results obtained from the funds’ projects have encouraged the shareholders of Livelihoods, including Hermès, to launch a second carbon fund in 2019, functioning on similar principles to the first fund. In 2020, the shareholders of the Livelihoods Carbon Fund are working on a third Livelihoods project.

**Sciences Po sustainable development Chair**

As mentioned in § 2.3.2.1 of chapter 2 “Corporate Social Responsibility”, the School of Public Affairs and the School of International Affairs (PSIA) of **Sciences Po** launched a new interdisciplinary chair in 2020: **the European Chair on sustainable development and Climate Transition.** It aims to promote the design of public policies serving the objectives of the European Green Deal, but also to train students, civil servants and members of civil society in the challenges of sustainable development.

This chair aims to shed new light on how to advance sustainable development along the three axes of climate transition, local economic development and social inclusion.

**Hermès is proud to support this initiative alongside two partners, HSBC and the European Investment Bank.** This partnership complements other joint initiatives with Sciences Po in the field of education.

**2.7.2.2 COMMUNICATION AND TRANSPARENCY  
VIS-À-VIS STAKEHOLDERS**

Hermès, a company with a discreet culture, strives nonetheless to make its sustainable development strategy, objectives and actions more transparent, in a rapidly changing context, and in particular to meet the expectations of stakeholders.

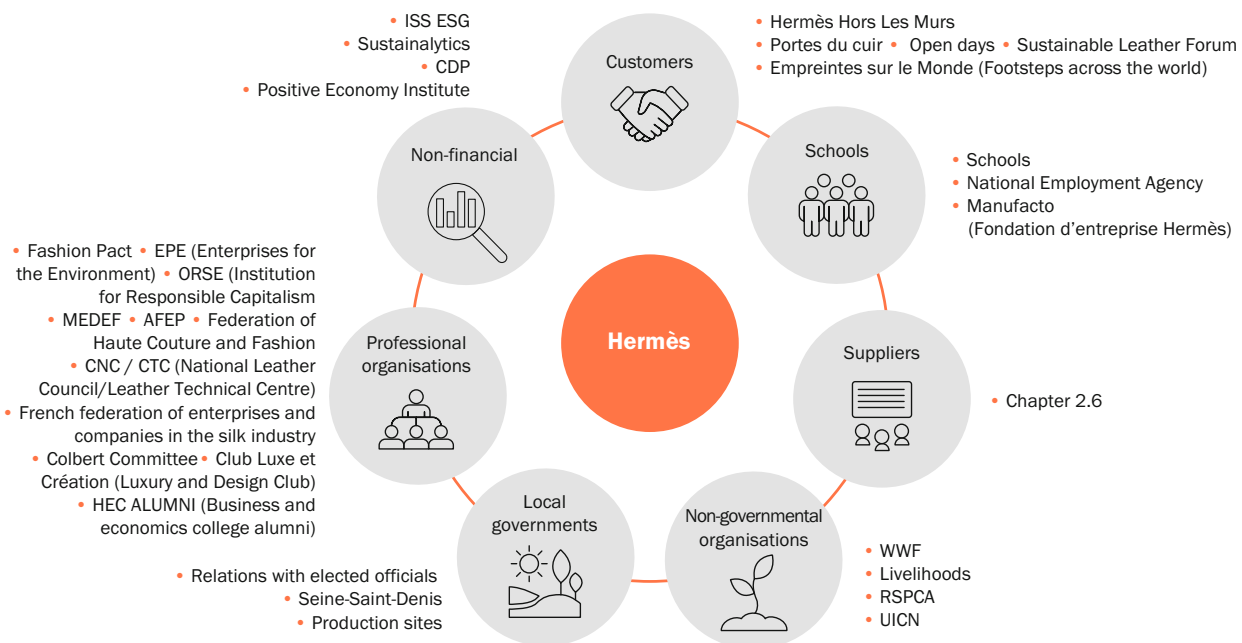
Thus, in a proactive approach, the teams are working to create the setting for more transparent external communication. This includes the responses to questionnaires and external analysts, as well as the dialogue established and initiated with the press, and influence.

To this end, in September 2020, a page dedicated to CSR was added to the new financial website <https://finance.hermes.com/en/a-value-creating-and-sustainable-french-model/>.

In addition, the House incorporates the best practices established by:

- ◆ TCFD (Task Force on Climate-related Financial Disclosures): see § 2.5.2;
- ◆ CDP (Carbon Disclosure Project): <https://www.cdp.net/en>;
- ◆ SASB (Sustainability Accounting Standards Board): cross-reference table in § 2.7.2.2.1 below.

The Hermès Group’s interactions with its stakeholders illustrated in this chapter break down as follows<sup>1</sup>:



1. List not exhaustive.

Hermès, as a socially responsible company, has been recognised several times by independent agencies, such as specialised ESG rating and ranking agencies, through their 2020 ratings of the House. For its first active participation in several assessments and rankings, Hermès was

placed among the most virtuous companies in the subject areas from the outset. These assessments were carefully chosen by Hermès for their credibility, rigour and representativeness of the priority challenges of the sector, including, but not limited to, the following analysts:

SUBJECT	Assessor	2018 score	2019 score	2020 score
Climate change	CDP	F	B	B
Water	CDP	F	B	A-
Forest	CDP	F	B	B
Cattle	CDP		B	B
ESG risks	ISS ESG	D	C	C
ESG risks	Sustainalytics	53	72 (fourth out of 181)	Publication 2021
Positive value creation	Positivity index	C	B+	B+
Human Rights	CHRB	3.5%	12.9%	36.5%
CSR commitment	Global Compact	Advanced	Advanced	Advanced

CDP is an international organisation that has been recording the environmental performances, particularly climate actions, of more than 8,400 companies since 2002. The average scores of the “apparel design” segment in Europe are C for Climate & Forest, and B- for Water.

ISS ESG (formerly Oekom) is a specialist ESG (environment, social and governance) rating agency. The scores it attributes range from D- to A+. To be rated “prime”, companies must achieve a level of C+.

Sustainalytics is a rating agency that assesses listed companies based on their ESG performance. Hermès is rated as an “outperformer” and is fourth in its peer group of 181 companies on a worldwide basis, with a score of 72/100.

The positivity index is a French analysis administered by the Positive Economy Institute to companies in the CAC 40. In 2020, the average score of the panel was C+. With a level of B+, Hermès is among the top-ranking companies on the criteria examined: working conditions, value-sharing, environmental footprint, education and research, and long-term strategic vision.

#### 2.7.2.2.1 SASB correspondence analysis

The Sustainability Accounting Standards Board (SASB) is an independent, not-for-profit standard-setting body that develops and maintains reporting standards for financially material sustainable development information. The SASB has established standards specific to 77 activity sectors, including clothing, accessories and footwear (consumer goods).

In the interests of transparency, Hermès is presenting for the first time in 2020, in addition to the information presented in this report, a summary of its actions according to this framework. This publication is also an opportunity to highlight the House’s progress.

Hermès’ business model is quite unusual compared to the sector taken into account by the SASB.

SASB identifies nine key topics for the sector, five of which concern supply chain (CG-AA-430); very few concern human resources and societal aspects. Hermès operates according to a highly integrated business model (61% of products are produced in-house), with supplier partnerships (the average age of relationships with the top 50 direct suppliers is 20 years), and production in France (for example, for 100% of Leather Goods, which represents half of the Group’s sales) and more generally in Europe (80% in total). Although important, topics related to supply chain are not the only ones. Human and societal challenges are also key to the House’s sustainability. In terms of risk, the categories identified by SASB are not always the most significant for Hermès. As explained in 2.1.3.1, the Group has identified and prioritised six key topics that structure its reporting and provide material non-financial economic information that is useful, comparable (even if sometimes specific) and evidence-based. In addition, the Group uses the CDP reporting for its carbon, water and forest challenges, and complies with the recommendations of the TCFD (see § 2.5.2.1 of chapter 2 “Corporate social responsibility”).

As a reminder, the information published by Hermès is independently audited, with a conclusion of “reasonable” assurance, *i.e.* a higher level than that required by French regulations (see § 2.9 of chapter 2 “Corporate social responsibility”).



The nine key topics of the SASB are organised around four headings, as detailed below:

- A. Chemicals management (CG-AA-250);
- B. Environmental footprint of the supply chain (CG-AA-430a);
- C. Working conditions in the supply chain (CG-AA-430b);
- D. Supply of raw materials (CG-AA-440).

#### A. Chemicals management (CG-AA-250)

§ 2.2.1, 2.4.2, 2.5.1 and 2.6 of this document provide more details on the topics listed below.

##### 1. Compliance of regulated substances (GC-AA-250a.1)

###### General principles

Hermès assumes all its responsibilities as a company that places goods on markets, to ensure the regulatory compliance of all products sold, in all countries where it operates. Two main activities make it possible to respect this commitment, monitoring and validation of products:

- ♦ regulatory monitoring is carried out through a large number of actions with stakeholders and is coordinated by the industrial affairs department:
  - coordination of the Colbert Committee's "Regulations" working group,
  - participation in the "Regulations" working group of Francéclat (Porcelain and Silversmith), the BJOP (Jewellery, Silversmith),
  - regulatory update at least once a year with the CTC (Leather), IFTH (Textiles), FPPP (Porcelain), BJOP (Jewellery, Silversmith), the Fédération du Verre et du Cristal, the Fédération Horlogère,
  - taking into account the monitoring prepared by a specialised service provider (Bureau Veritas) on certain products,
  - update twice a year (during the podiums), with all the House's subsidiaries, on the regulatory changes relating to products in each country. All possible incidents are dealt with in these meetings;
- ♦ product validation from a regulatory point of view, which is carried out at two levels:
  - the annual update of product specifications (CDC), which takes into account all the results of regulatory monitoring. These CDCs include compliance with the most stringent product regulations in the world (all countries to which Hermès exports products). It is generally the European regulations that are the strictest, even if this is not always the case,
  - all products are tested (internally and/or externally), in approved laboratories, against the technical criteria and according to the standards described in the product specifications.

###### Use of controlled substances

The list of controlled substances monitored by the Group (RSL) is the list of controlled substances worldwide. The Group has set a target of compliance with the most stringent regulations, which are generally European regulations. This list is shared within the Colbert Committee. For each substance, the name of the substance, its CAS number, the

most stringent limit in the world and the laboratory control standard for the substance appear.

The Group's list of substances, the permitted limits as well as the control standards, are common to the production units and apply to the suppliers. More specifically, product specifications (including this substance regulation) are shared with suppliers. The approval of products manufactured by suppliers follows exactly the same pattern as products manufactured by the Group. A good example is that of the tanneries: the Leather *métier* purchases hides from the Group's tanneries, but also some of its needs from external tanneries. The "leather" specifications are exactly the same in both cases, and new hides from in-house tanneries or those of colleagues follow the same approval path.

Hermès has put in place preventive processes to restrict or prohibit certain substances, in particular by discussing and signing product specifications with suppliers, which contains all the regulations and technical requirements, as well as the corresponding control methods.

###### Control of materials and products

For its raw materials, Hermès adapts the frequency and type of controls according to the volumes concerned. For very limited volumes, control may be at the unit level, but it is carried out on a statistical basis for larger volumes. Depending on the nature of the materials, which can be technically very different (leathers, textiles, perfume essences, etc.), the volumes and the history of the quality results, a sampling and testing frequency is chosen by the quality department to ensure a maximum confidence level in the quality of incoming materials. In the event of a negative result, the goods are blocked and sampling and controls increased.

With regard to products (whether manufactured in-house or by suppliers), the Group procedure is exactly the same: the aim is to verify, with a maximum level of confidence, that the entity placing the goods on the market has fulfilled its responsibilities. Some of the House's products are subject to checks on every unit for certain characteristics that are considered critical. Others are checked on a regular basis and yet others on a random basis. The great diversity of products (Leather Goods, textiles, porcelain, crystal, silverware, jewellery, watches, ready-to-wear, perfumes, etc.) means that an appropriate control scheme and the proper frequency must be defined for each product.

Hermès uses the services of both in-house and external laboratories for these checks. This decision is made according to the workload of the in-house laboratories as well as the nature of the measurements to be carried out.

In summary, the Group's generic procedure (SOP) is that no raw material or product is supplied without a specification being defined and accepted by the supplier, and without the raw material or the finished product having been tested according to these specifications.

###### List of controlled substances

As explained above, there is a single list of controlled substance (RSL), which includes all substances that are or could be used in products. For each substance, the most stringent regulations in the world are systematically adopted. The aim is to produce products that comply with regulations, regardless of the country in which they are sold.

The RSL is shared within the Colbert Committee working group. This list of substances is not distributed as such. Such distribution would not be of great interest, since this list contains only public information, being a collation of national or federal regulations.

#### Supply chain compliance

All raw materials purchased and all products purchased are subject to specifications. The specifications are discussed and formally approved by the supplier. They include all regulations corresponding to the material and/or product. Any raw materials purchased, just as any products purchased, are subject to technical approval including laboratory tests. All deliveries (raw materials or products) are subject to appropriate quality control. Certain supplies (materials or products) are accompanied by an inspection certificate, the tests having been carried out by the supplier, when this provision is stipulated in the specifications. Tier 1 suppliers undertake to develop the same approach (formal specifications, control procedures, etc.) with their own suppliers (tier 2).

In the event of non-compliance with the specifications for raw materials or products, the goods are blocked and, generally, a second verification check is launched. Hermès does not use non-compliant goods in its production. They are therefore returned for new manufacture or repair when technically possible.

## 2. Management of risks related to the use of chemicals (CG-AA-250a.2)

#### General principles

The Hermès craftsmanship model means that 61% of the House's objects are produced in in-house and exclusive workshops, 80% of which are located in France. The remaining 39% come from suppliers, the vast majority of which are located in France and Europe. Thus, of the top 50 suppliers of materials or products, 52% are in France, 42% are in Europe and only 7% are in countries further afield.

For all sites located in France and Europe, labour legislation requires a chemical risk analysis and the implementation of measures to protect workers. In owned units, as well as those of suppliers, regular audits are carried out to verify that the analyses are properly carried out, and the means of protection are in place and used.

For all sites in France and Europe, the national regulator imposes a limit on the chemical substances released into the air, effluents and soil. In the House's own units, as well as those of suppliers, regular audits verify that each entity is fully aware of the regulations to which it is subject, that the necessary means to comply with them are in place, and that regular checks make it possible to ensure that these methods are working.

For the small number of suppliers further afield, for the majority of materials suppliers, regular audits are used to verify regulatory

compliance, in terms of health and safety, as well as the environment. In the event that local legislation does not exist or is insufficient, Hermès helps its suppliers to adopt and comply with European standards.

#### Implementation

The chemical risk management approach is based on legislation which, in France and in Europe, is generally hazard-based.

The use of a chemical substance banned by a Reach-type regulation, for example in a French or European tannery, is a case that would undoubtedly be discovered either by the entity's audit or by product control. This demonstrates the importance of regular and in-depth audits, as well as appropriate product control frequency.

The main chemical risk management tool is the product specification. An accurate and exhaustive reflection of the most demanding regulations worldwide, it lists all the requirements in terms of substances, the limits set, and the corresponding laboratory control methods. The procedure begins with the sharing of this document with the supplier (in-house or external), then follows a formal agreement from the supplier, and it is completed by an approval check of the first products delivered. During the "series life", checks are carried out at an appropriate frequency.

The choice of chemical reduction and/or elimination projects is mainly based on an analysis of future regulatory changes. It is in this spirit that the Group conducts a very strict regulatory watch, both in France and abroad.

When there is a threat of changes in the regulations for a substance or a family of substances, an estimated decision schedule is drawn up, which sets out the work to be carried out and the timetable.

Hermès has set up a third-party certification target for each of its purchasing sectors (around 60). For example:

- ◆ 100% of farmed exotic leathers certified by ICFA (crocodile) and SAOBC (ostrich);
- ◆ RJC certification on metals and precious stones;
- ◆ SA 8000 certification of the leading OuterWear manufacturer of Women's Ready-to-wear;
- ◆ ISO 14001 certification of the largest manufacturer of cashmere coats;
- ◆ LWG for leathers;
- ◆ GOTS for packaging cotton;
- ◆ FSC for cellulose fibres (viscose).

As detailed in § 2.4.2, the Group's 2024 objective is to have 100% of the textile and leather sectors certified.

**B. Environmental footprint of the supply chain (CG-AA-430a)**

§ 2.2.1, 2.5.1 and 2.6 of this document provide further details on the subjects listed below.

**1. Effluent management (GC-AA-430a.1)**

The Group verifies through regular audits (see § 2.6) that its suppliers (tier 1) comply with local regulations regarding the regulatory compliance of their effluents. Audits conducted during the last three years, which were extended to tier-2 suppliers as far as possible, did not reveal any non-compliance on these subjects. If any non-compliance were to be revealed, this point would be classified as a priority and an action plan would be requested from the supplier, its execution monitored and confirmed by a control visit at the end of the plan. The Group estimates, on the basis of the follow-up of the audits of the last three years, that the compliance of tier 1 and 2 suppliers on this subject is high, certainly no less than 80%.

The supply risk associated with a non-compliant effluent discharge from a supplier involves the shutdown – albeit probably temporary – of its activities by the local authorities. The value of regular audits is that they enable a detailed picture of these issues and verification that the facilities are operating correctly at a point in time. In addition to the risk of interruption of supplies, and its economic consequences, reputational risk cannot be ruled out.

If we add the sites owned by our company (units equipped with effluent treatment plants) to those of tier 1 and tier 2 suppliers with similar facilities, we arrive at a total of more than 100 entities. The vast majority of these units discharge their effluents at a municipal or local plant, following pre-treatment carried out at the entity itself. The discharge agreements for municipal or local facilities vary considerably from one municipality to another, and from one country to another in Europe. As mentioned above, most of the operations are in Europe. In general, in-house processing by entities includes primary processing and secondary processing. A small number of entities discharge their effluents into the environment. In this case, the specifications for their discharges are more stringent, and these units are more closely monitored and controlled by the local authorities. Their treatment systems generally include primary, secondary and tertiary phases. These entities are increasingly encouraged to develop their recycling capacity, which leads them to study improvements to their treatment systems.

**2. Environmental assessments (GC-AA-430a.2)**

The Group's entities and those of its suppliers are regularly subject to audits carried out by Hermès' teams and external consultants, in addition to those carried out by the authorities (in particular for sites subject to authorisations), see § 2.6.1.

These audits identify non-compliance. For example, in 2020, 609 instances of non-compliance were identified, of which 0.5% were critical, 25% major, 43% significant and 31.5% simple suggestions for improvement. In terms of the environment, no risk of pollution has been identified at any supplier. The most frequent findings concerned non-compliance with the ICPE regulations (administrative), administrative

waste management or incomplete asbestos files (DTA). All critical and major points have been the subject of an action plan, which is monitored monthly by the buyers concerned, until the end of the actions and inspection visit.

In addition, as described in § 2.5.1.2, in 2019 the Group conducted an analysis with WWF of its water use on more than 45 sites around the world, an opportunity to assess the environmental risks and impacts in its supply chain.

Lastly, the Group's indirect suppliers are assessed using the EcoVadis approach, which includes an environmental component (see § 2.6.1.2.2).

**C. Working conditions in the supply chain (CG-AA-430b)**

§ 2.6.1, 2.6.2, 2.8.1 and 2.8.4 of this document provide further details on the subjects listed below.

The Group's supplier relations policy is based on four pillars (security, quality, and innovation, cost control and CSR). The CSR pillar is particularly developed, and deals in particular with issues related to human rights, fundamental freedoms, employment conditions and respect for ethics. As described above in the report, the Group is an active promoter of the main international principles in this area, and publishes in particular its ethics charter and its code of business conduct, which is also for use by its suppliers.

Hermès systematically requests a formal commitment from its suppliers to comply with their social, regulatory and environmental obligations through two undertaking handbooks signed by both parties. Handbook 1 summarises the confidentiality and fair-trading commitments. Handbook 2 defines the supplier's commitments to social, environmental and ethics policies. 85% of suppliers of materials or products have signed these two documents.

These commitments are verified. For example, 100% of subcontractors carrying out operations on leather have been audited. In 2020, 96% of exotic skins came from farms that had undergone a comprehensive social and environmental audit. The Top 50 suppliers of materials or products are systematically audited and then an action plan is put in place. A re-audit may be requested if necessary after three to four years. The audits are carried out by an external firm and immediately sent to any supplier for which a social or environmental non-compliance issue is suspected. Out of the 609 findings identified during the audits in 2020, only 24 were non-compliance concerning social aspects, *i.e.* less than 4%. These findings relate mainly to the number of overtime hours worked, the non-performance of annual reviews and the absence of formalised objective criteria for bonuses.

As mentioned above (environmental assessments), supplier audits, which cover both social and environmental issues, ensure that the main risks are examined in terms of working conditions. The close proximity to suppliers (geographical and due to the length of the relationship) supports this analysis. Furthermore, the fact that 80% of production operations are carried out in Europe, and therefore subject to strict regulations and controls, reduces the risk of an unacceptable situation.

**D. Supply of raw materials (CG-AA-440)**

§ 2.4 of this document provides a detailed explanation of the challenges and management of material supplies. The Group exercises close control over these materials, particularly in terms of quality and the conditions for obtaining these materials and their environmental and social impact. As soon as a risk of social or environmental non-compliance is detected, the Group carries out investigations that may lead to supplies being halted.

The main materials used, *i.e.* contributing more than 10% of revenue, are (§ 2.4.2):

- ◆ leather from bovines: the leather used in Leather Goods workshops comes exclusively from European farms, as by-products from food. This sector is subject to numerous controls and regulations. As detailed above, in 2019-2020 the Group conducted a review of its European calf supplies with WWF France, the conclusions of which feed into action plans with partners. Hermès committed to the LWG (Leather Working Group) approach in 2020;
- ◆ exotic leathers (mostly from Louisiana, Australia and Africa). These crocodile, alligator and ostrich sectors are subject to very precise standards and audits on environmental, social and animal welfare issues. As both operator and buyer, the House has a very detailed knowledge of these sectors, which enables it to exercise a scrupulous duty of care. In addition, most of these purchases are certified according to demanding international standards (100% of farmed exotic leathers are ICFA and SAOBC certified);
- ◆ silk: mainly from Brazil. The Group conducted a specific review of this sector in 2020 with the University of Cambridge, with very positive conclusions;
- ◆ cashmere: mainly from Inner Mongolia, also recently audited with the help of WWF France and with positive conclusions, and a target of RWS certification in 2024.

The other materials, which are less significant in terms of volume, are also closely monitored and the search for *ad hoc* certifications (RJC on metals and precious stones, GOTS for cotton, FSC for cellulose fibres, etc.). In addition, in ready-to-wear, the leading OuterWear manufacturer of the Women's Ready-to-Wear sector holds SA 8000 certification and the largest manufacturer of cashmere coats holds ISO 14001 certification.

The Group uses very few synthetic raw materials, and has launched an internal working group on the disposal of single-use plastics, mainly as part of its internal logistics.

The risks related to these sectors are included in the text of the report, with special attention this year also given to those caused by climate change (§ 2.5.2.1). Six direct impact scenarios were studied, notably for the supply of raw materials from the exotic leather, cowhide, cashmere and silk sectors.

As described in § 2.4.2, all these supply chains are subject to regular detailed reviews, risk analyses, briefings for operational staff and partners, and audits. They are part of a certification approach by 2024 using the best current standards, thus making it possible to calculate their weighting in the Group's total purchases.

**With Manufacto, craftspeople are returning to school to share their métiers**

He was a salesman, she was an accountant. Benjamin and Emmanuelle dropped everything to focus on Leather Goods & Saddlery, a passion that they now share even in the classroom. When school starts up in the autumn, they leave home with their tools and rolls of leather to meet students aged 9 to 16 years and their teachers. Like them, dozens of craftspeople who work with leather, wood, or plaster, decided to return to school to teach the younger generations about craft *métiers*, as part of the Manufacto workshops.

This programme, launched in 2016 by the Fondation d'entreprise Hermès with the Rectorat de Paris, the Compagnons du Devoir, the Camondo school and Villa Noailles, takes place in the educational authority areas of Paris, Créteil, Nice, Lyon and Besançon. In December 2019, nearly 1,100 students in 41 schools benefited from this. The career paths taken by Benjamin and Emmanuelle, which initially were not the right ones for them, bear witness to the effort

needed to better communicate about manual *savoir-faire* in elementary, middle and high schools.

The approach of Manufacto is to innovate in this area, drawing on the actual experience of the craftspeople: pleasure in doing things comes first and foremost from making things. Students learned about the importance of technique and several hand movements by holding a hammer, polishing a leather, or trying to make a saddle stitch. From lamps to stools, as well as a speaker, a pencil case or a wall-mounted storage compartment, the creation of the object is carried out from A to Z. When students come out of these workshops with their work under their arm, their view of craftsmanship has changed. Some students discover a desire, such as Benjamin and Emmanuelle, to eventually find work in the field of crafts.

